

Albert Einstein Healthcare Network

**Reports on Federal, State and City Awards
in Accordance with OMB Circular A-133,
Commonwealth of Pennsylvania, Department
of Public Welfare Audit Requirements and
City of Philadelphia Subrecipient Audit Guide
June 30, 2012**

**Federal Entity Identification
Numbers 23-2290323, 23-1396794, 23-1352200**

Albert Einstein Healthcare Network

Index

June 30, 2012

	Page(s)
Part I – Financial Statements	
Report of Independent Auditors	1
Consolidated Financial Statements and Notes to Consolidated Financial Statements	2–34
Part II – Schedules of Expenditures of Federal, State and City Awards	
Schedules of Expenditures of Federal, State and City Awards	35–38
Notes to Schedules of Expenditures of Federal, State and City Awards.....	39–40
Part III – Reports on Internal Control and Compliance	
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	41–42
Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A 133, Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements and the <i>City of Philadelphia</i> <i>Subrecipient Audit Guide</i>	43–44
Part IV – City of Philadelphia Requirements and Supplemental Schedules	
Report of Independent Auditors on City of Philadelphia, Department of Public Health Supplemental Schedules	45
Coordinating Office for Drug and Alcohol Abuse Programs, City of Philadelphia, Contract #94-6164	46
AIDS Activities Coordinating Office (“AACO”), City of Philadelphia, Contract #09-20868 and #08-20362	47
City of Philadelphia, Department of Public Health, Office of Behavioral Health and Intellectual Disability Services Schedule of Program Activity Invoice Summary by Contract Number.....	48
City of Philadelphia, Department of Public Health, Office of Behavioral Health and Intellectual Disability Services Schedule of Adjustments on Summary of Program Activities by Program Activity Code.....	49–52
City of Philadelphia, Department of Public Health, Office of Behavioral Health and Intellectual Disability Services Schedule of Program Activity Invoice Summary	53
Report of Independent Auditors on Cost Allocation Plan for Audited Fiscal Year	54
Report of Independent Auditors on Cost Allocation Plan for Upcoming Budget Year	55–56
Part V – Findings	
Schedule of Findings and Questioned Costs.....	57–60
Management’s Views and Corrective Action Plan	61

Part I – Financial Statements



Report of Independent Auditors

To the Board of Trustees of
Albert Einstein Healthcare Network

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and changes in net assets and of cash flows present fairly, in all material respects, the consolidated financial position of Albert Einstein Healthcare Network ("AEHN") and its subsidiaries at June 30, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of AEHN's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2012 on our consideration of AEHN's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2012. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of AEHN taken as a whole. The accompanying Schedules of Expenditures of Federal, State and City of Philadelphia Awards for the year ended June 30, 2012 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements, and the *City of Philadelphia Subrecipient Audit Guide*, and are not a required part of the basic consolidated financial statements. The supplemental schedules in this report are presented for purposes of additional analysis as required by the Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements and the *City of Philadelphia Subrecipient Audit Guide*. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. The Schedules of Expenditures of Federal, State and City of Philadelphia Awards has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information



directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or the basic consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal, State and City of Philadelphia Awards is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 28, 2012

Albert Einstein Healthcare Network

Consolidated Balance Sheets

June 30, 2012 and 2011

(in thousands of dollars)

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 64,573	\$ 41,781
Investments	8,761	8,642
Accounts receivable, for patient services less allowance for doubtful accounts of \$13,700 and \$14,200 for 2012 and 2011, respectively	101,622	110,134
Other accounts receivable	14,646	13,107
Inventories	10,789	10,269
Other current assets	7,085	5,108
Assets whose use is limited	22,035	36,670
Total current assets	229,511	225,711
Investments	274,519	298,229
Assets whose use is limited	337,578	438,634
Land, buildings and equipment, net	543,350	399,352
Beneficial interest in perpetual trusts	37,034	43,707
Recoverable professional liability	49,641	44,160
Other non-current assets	55,285	53,057
Total assets	<u>\$ 1,526,918</u>	<u>\$ 1,502,850</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term obligations	\$ 9,999	\$ 10,208
Accounts payable and accrued expenses	148,797	122,898
Accrued vacation and other benefits	13,688	17,050
Current portion of accrued professional liability claims	30,675	29,023
Other liabilities	8,420	8,642
Total current liabilities	211,579	187,821
Long-term obligations	454,442	455,966
Accrued pension liability	177,560	103,175
Accrued professional liability claims	215,854	202,865
Other liabilities	25,892	24,227
Total liabilities	<u>1,085,327</u>	<u>974,054</u>
Net assets:		
Unrestricted	329,308	420,542
Temporarily restricted	66,749	56,047
Permanently restricted	45,534	52,207
Total net assets	<u>441,591</u>	<u>528,796</u>
Total liabilities and net assets	<u>\$ 1,526,918</u>	<u>\$ 1,502,850</u>

The accompanying notes are an integral part of these consolidated financial statements.

Albert Einstein Healthcare Network
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2012 and 2011

(in thousands of dollars)

	2012	2011
Unrestricted Net Assets		
Unrestricted operating revenues, gains and other support		
Net patient service revenue	\$ 993,512	\$ 884,524
Investment income	442	1,852
Other revenue	59,114	41,977
Net assets released from restrictions	5,188	5,028
Total unrestricted operating revenues, gains and other support	<u>1,058,256</u>	<u>933,381</u>
Operating expenses		
Salaries and employee benefits	645,422	556,009
Supplies	120,390	114,019
External physician, clinical and professional service fees	90,581	69,746
Depreciation and amortization	43,188	36,560
Interest expense	8,275	8,603
Insurance	41,168	33,813
Provision for bad debts	26,528	18,045
Other	80,221	79,398
Total operating expenses	<u>1,055,773</u>	<u>916,193</u>
Operating income	2,483	17,188
Non-operating revenues		
Investment income and realized gains and losses	14,176	21,694
Other than temporary impairments on investments	(1,698)	(735)
Other	1,885	2,376
Excess of revenues over expenses	<u>16,846</u>	<u>40,523</u>

The accompanying notes are an integral part of these consolidated financial statements.

Albert Einstein Healthcare Network
Consolidated Statements of Operations and Changes in Net Assets, continued
Years Ended June 30, 2012 and 2011

(in thousands of dollars)

	2012	2011
Unrestricted net assets (continued)		
Excess of revenues over expenses (previous page)	16,846	40,523
Change in net unrealized gains on investments	(2,867)	17,483
(Increase) decrease in pension liability	(105,213)	25,676
	<u>(91,234)</u>	<u>83,682</u>
(Decrease) increase in unrestricted net assets		
Temporarily restricted net assets		
Contributions	15,148	7,590
Contribution revenue - MHS acquisition	-	669
Investment income and realized gains	1,560	3,391
Other than temporary impairments on investments	(563)	(309)
Change in net unrealized gains on investments	(255)	1,931
Net assets released from restrictions	(5,188)	(5,028)
Reclassification of agency funds	-	(5,109)
	<u>10,702</u>	<u>3,135</u>
Increase in temporarily restricted net assets		
Permanently restricted net assets		
Contribution revenue - MHS acquisition	-	7,019
Contributions for endowment funds	-	572
Change in beneficial interest in perpetual trusts	(3,777)	(382)
Change in net unrealized gains on investments	(2,896)	5,538
	<u>(6,673)</u>	<u>12,747</u>
(Decrease) increase in permanently restricted net assets		
(Decrease) increase in net assets	(87,205)	99,564
Net assets, beginning of year	<u>528,796</u>	<u>429,232</u>
Net assets, end of year	<u><u>\$ 441,591</u></u>	<u><u>\$ 528,796</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

Albert Einstein Healthcare Network
Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011

(in thousands of dollars)

	2012	2011
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (87,205)	\$ 99,564
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net realized and unrealized losses (gains) on investments	1,511	(40,808)
MHS unrestricted contribution loss	-	527
MHS restricted contribution	-	(7,688)
Depreciation and amortization	43,188	36,560
Increase (decrease) in pension liability	105,213	(25,676)
Provision for bad debts	26,528	18,045
Change in beneficial interest in perpetual trusts	3,777	382
Contributions and investment income restricted for long-term purposes	(15,962)	(8,348)
Equity in income of joint ventures	(7,555)	(8,154)
Increase in accounts receivable	(19,556)	(19,776)
(Increase) decrease in inventories	(520)	925
Increase in recoverable professional liability	(5,481)	-
(Increase) decrease in other assets	(1,978)	789
Increase in accounts payable and accrued expenses	25,899	6,133
(Decrease) increase in accrued pension liability, net of funding	(30,828)	2,608
Decrease in accrued vacation and other benefits	(3,362)	(15,473)
Increase in accrued professional liability, net of funding	14,641	60,854
Increase in other liabilities	1,443	4,103
Net cash provided by operating activities	<u>49,753</u>	<u>104,567</u>
Cash flows from investing activities		
Purchase of land, buildings and equipment	(183,675)	(106,947)
Proceeds of investments and assets whose use is limited, net	140,774	29,172
MHS membership contribution refund	-	3,252
Advances to MHS	-	(2,421)
Other	1,062	(1,722)
Net cash used in investing activities	<u>(41,839)</u>	<u>(78,666)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Albert Einstein Healthcare Network
Consolidated Statements of Cash Flows - Continued
Years Ended June 30, 2012 and 2011

(in thousands of dollars)

	2012	2011
Cash flows from financing activities		
Proceeds from long-term borrowings	8,131	7,136
Repayment of long-term borrowings	(8,733)	(7,776)
Principal payments under capital lease obligations	(482)	(484)
Contributions and investment income restricted for long-term purposes	15,962	8,348
Deferred financing fees	-	(1,976)
Net cash provided by financing activities	<u>14,878</u>	<u>5,248</u>
Net increase in cash and cash equivalents	22,792	31,149
Cash and cash equivalents, beginning of year	<u>41,781</u>	<u>10,632</u>
Cash and cash equivalents, end of year	<u>\$ 64,573</u>	<u>\$ 41,781</u>

	2012	2011
Supplemental disclosure of cash flow information		
Cash paid for interest	\$25,011	\$ 18,249
Capital lease obligations incurred	4	10

AEHN acquired MHS by advancing cash of \$21,070,000 million. In conjunction with the acquisition, assets and liabilities were assumed resulting in a net contribution as follows:

Fair value of assets acquired	\$ 75,028
Cash advanced to MHS	(21,070)
Liabilities assumed	(46,797)
Unrestricted and restricted contribution received in acquisition of MHS	<u>\$ 7,161</u>

The accompanying notes are an integral part of these consolidated financial statements.

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

1. Organization and Nature of Operations

The Albert Einstein Healthcare Network is a not-for-profit corporation that controls related organizations in a health care delivery system serving the greater Delaware Valley through sole membership in those related organizations. The Albert Einstein Healthcare Network ("AEHN"), the parent company, together with its related member organizations, comprises the Albert Einstein Healthcare Network ("Network").

AEHN engages in health education, health promotion and fundraising activities, conducts system-wide planning, establishes overall financial goals and oversees funds management.

AEHN appoints the governing boards of subsidiaries and member organizations. The related organizations and their primary operations included in the consolidated financial statements are as follows:

Albert Einstein Medical Center ("AEMC") is a controlled organization through sole AEHN membership. AEMC is licensed to operate 575 acute care beds, 197 rehabilitation beds, 138 skilled nursing beds and an outpatient surgical center across three campuses.

On its main campus, in North Philadelphia, AEMC provides tertiary care in a 509 acute care bed hospital setting. AEMC provides rehabilitation services in a 17-bed setting on its main campus and 50-bed setting at four other hospitals that are part of its Moss Rehab division. AEMC provides nursing care in a 138-bed setting that is a skilled nursing facility. In addition, services are provided through an emergency department on the main campus; outpatient and ancillary services are provided both on the main campus and through surrounding community sites.

On its Elkins Park campus, AEMC provides tertiary care in a 66-bed acute care hospital setting. AEMC provides rehabilitation services in a 130-bed rehabilitation setting that is also part of its Moss Rehab division. In addition, services are provided through an emergency department and various outpatient and ancillary departments.

On its Germantown campus, AEMC provides services through a crisis response center and various outpatient and ancillary departments. Psychiatric services are provided in a long-term structured residential setting.

Belmont Center for Comprehensive Treatment ("Belmont") is a controlled organization through sole AEHN membership. Belmont is licensed to provide psychiatric services in a 147-bed hospital setting and counseling and psychiatric care in various outpatient and partial hospital settings.

Einstein Practice Plan, Inc. ("EPPI") is a controlled organization through sole AEHN membership. EPPI incorporates the physician staff of the clinical departments of AEMC and Belmont in furtherance of providing patient care, teaching and research services to the Network's affiliated entities.

Einstein Community Health Associates ("ECHA") is a controlled organization through sole AEHN membership. ECHA incorporates physician office operations providing primary care services in the community.

Einstein Healthcare Systems, Inc. ("EHS") is a wholly owned for-profit business corporation and subsidiary of AEHN.

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Einstein Medical Center Montgomery (EMCM), formerly known as New Regional Medical Center, is a controlled organization through AEHN. EMCM is constructing a new medical center to provide acute care services in a 146-bed hospital setting to residents in and around central Montgomery County.

The new medical center will provide a full range of acute health care services in addition to various programs established to improve health in its surrounding communities.

Construction of the new hospital facility began in July of 2010. The new hospital is scheduled to open in the fall of 2012.

Montgomery Health System ("MHS"), as of March 31, 2011, is a controlled organization through sole AEHN membership. MHS consists of four constituent companies: Montgomery Hospital Medical Center ("MHMC"), Fornance Physician Services ("FPS"), Montgomery Health Foundation ("MHF") and CMMC, Inc. ("CMMC")

MHMC is licensed to operate as a general acute care hospital providing services in a 177-bed hospital setting in Norristown, Pennsylvania.

FPS is a physician practice organization providing services in various medical specialties at locations throughout Montgomery County.

MHF engages in fund raising activities primarily for the benefit of MHMC and the community.

CMMC leases space in its medical office building and provides other services ancillary to MHMC.

Broadline Risk Retention Group, Inc., ("BRRG"), a Vermont not for profit sponsored risk retention group, organized on July 2010, is a controlled organization through membership of AEHN (Parent) and its subsidiaries who participate in its risk retention program. BRRG is organized and operated exclusively to support the Network and the charitable healthcare activities of the member organizations of the Network and provides professional liability, general liability and excess liability insurance to the Network and its members.

Montgomery Health System Acquisition

On March 31, 2011, MHS became a member organization whereupon AEHN became the sole member of MHS. This resulted in both change in corporate membership and change in control.

Prior to this change, MHS and the Network have worked together since December 29, 2005 under an affiliation agreement ("Agreement") to develop the new hospital in Montgomery County through EMCM. Among other things, the Agreement provides that upon the opening of the new hospital, MHMC shall cease to operate as a general acute care hospital.

The change in control on March 31, 2011 was accounted for under the acquisition method. AEHN's advance was liquidated and charged against contribution revenue. Concurrently, the fair value of MHS's net assets acquired was established as AEHN's equity investment and credited to contribution revenue. As a result of this transaction, AEHN recorded a \$527,000 net contribution revenue loss. This loss represents the excess of AEHN's investment over the fair value of MHS's unrestricted assets acquired and unrestricted liabilities assumed. This amount is included in the performance indicator in the 2011 consolidated statement of operations and changes in net assets.

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

The fair value of assets acquired and liabilities assumed of MHS at March 31, 2011, in thousands of dollars, were as follows:

	2012
Assets	
Cash and cash equivalents	\$ 3,252
Assets whose use is limited	37,887
Accounts receivable	13,921
Beneficial interest in perpetual trust	7,018
Land, buildings and equipment, net	7,792
Other assets	5,158
	<u>5,158</u>
Total assets acquired	<u>\$ 75,028</u>
Liabilities	
Current portion of long term obligations	\$ 2,317
Accounts payable and accrued expenses	7,523
Accrued vacation and other benefits	5,760
Long-term debt	1,491
Accrued pension benefits	11,210
Accrued professional liabilities	15,083
Other liabilities	3,413
	<u>3,413</u>
Total liabilities assumed	<u>\$ 46,797</u>
Net Assets	
Unrestricted	\$ 20,543
Temporarily restricted	669
Permanently restricted	7,019
	<u>7,019</u>
Total net assets	<u>\$ 28,231</u>

A summary of the financial results of MHS included in the consolidated statement of operations and changes in net assets for the three month period March 31, 2011 through June 30, 2011, in thousands of dollars, are as follows:

Total operating (loss)	\$ (1,082)
Excess of expenses over revenues	\$ (1,034)
Decrease in unrestricted net assets before adjustment	\$ (872)
Adjustment to net assets for under funded pension benefits	\$ 1,902
Total Increase in unrestricted net assets	\$ 1,030

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

A summary of the unaudited pro forma financial results of the Network and MHS for the year ended June 30, 2011, in thousands of dollars, as if the acquisition had occurred on July 1, 2010 is as follows:

2011	Network	MHS	Total
Total operating income	\$ 18,270	\$ (1,367)	\$ 16,903
Excess/(deficiency) of revenues over expenses	\$ 41,556	\$ (922)	\$ 40,634
Change in net unrealized gains on investments	\$ 17,325	\$ 2,555	\$ 19,880
Increase in unrestricted net assets before adjustment	\$ 58,881	\$ 2,383	\$ 61,264
Increase in unrestricted net assets	\$ 82,655	\$ 8,730	\$ 91,385

2. Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles in the United States of America ("GAAP"). These consolidated financial statements include the accounts of the Network and its controlled affiliates. Investments in which the Network does not control, but in which it has a substantial ownership interest and can exercise significant influence, are accounted for using the equity method. All significant inter-company accounts and transactions have been eliminated.

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period and the accompanying notes. Actual results could differ from these estimates.

Financial Statement Presentation

Unrestricted Net Assets are those assets that are available for the support of operations and whose use is not externally restricted, although their use may be limited by other factors such as by contract or board designation.

Temporarily Restricted Net Assets include gifts for which donor-imposed restrictions such as specific time period or purpose have not been met and trust activity and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently Restricted Net Assets include gifts, trusts, and pledges which require by donor restriction that the corpus be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

Performance Indicator

In the consolidated statements of operations and changes in net assets, the primary indicator of the Network's results of operations is "Excess of revenues over expenses." As such, it includes all unrestricted revenues, operating investment income (as defined in the Investments and Investment Income policy note), operating expenses and non-operating revenues and non-operating expenses. Transactions such as restricted contributions and contributions of long-lived assets (e.g., capital equipment), certain investment income and realized gains and losses related to these transactions are not included in excess of revenues over expenses.

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and investments in highly liquid debt instruments with an original maturity of three months or less.

Fair Value Measurement

The Network adopted FASB guidance on fair value measurements for investments effective July 1, 2008. This guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Under the standard, fair value is defined as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement and should be determined based on the assumptions that market participants would use in pricing an asset or liability in a hypothetical transaction at the measurement date.

The Network measures its available-for-sale restricted and unrestricted marketable securities at fair value on a recurring basis. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. The Network's valuation methodologies used to measure financial assets and liabilities at fair value are outlined below:

- Level 1 Where applicable, the Network uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology typically applies to domestic equities, international equities and mutual funds which redeem at net asset value (NAV).
- Level 2 If quoted prices in active markets for identical assets are not available, then quoted prices for similar assets, quoted prices for identical assets in inactive markets or inputs other than quoted prices that are observable for the asset, either directly or indirectly, will be used to determine fair value. These inputs may include recent bid prices, interest rates, yield curves, credit risk and default rates or inputs derived principally from market data and corroborated by market data. Securities typically priced using Level 2 inputs include government bonds (including U.S. Treasuries and Agencies), corporate bonds, asset-backed securities and mortgage-backed securities, commercial paper, guaranteed investment contracts, currency options and commingled funds where NAV is corroborated with observable market data.
- Level 3 These inputs would be the Network's own assumptions about the assumptions market participants would use in pricing an asset.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques as follows:

- Market approach – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- Income approach – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Investment Income, Gains and Losses

The Network segregates investment income and realized gains and losses on investments between operating and non-operating income to better match operating income with operating expenses. Investment income or loss on unrestricted cash and cash equivalents, short-term investments and trustee held funds associated with debt obligations (including realized gains and losses on investments, interest, and dividends) are included in operating revenues. All other investment income and realized gains and losses are included in non-operating revenue.

Unrealized gains and losses on all investments are shown below the excess of revenues over expenses. Investments with unrealized depreciation are reviewed at each year-end to determine whether these investments are other-than-temporarily impaired. Externally managed marketable investments with fair value below cost at year-end are considered to be other-than-temporarily impaired and, accordingly, the unrealized depreciation is recognized as an impairment loss through a write-down in the cost basis of such investments to year-end fair values. This loss is reflected above the performance indicator line.

Investment income on investments of donor-restricted funds, including unrealized gains and losses, is added to or deducted from the appropriate net asset category based on the donor's restrictions.

Inventories

Inventories are stated at the lower of cost or market with cost determined using the first-in-first-out method.

Assets Whose Use is Limited

Assets whose use is limited are recorded at fair value and principally include amounts restricted by donors, amounts set aside by the Board of Trustees for future capital improvements and amounts held by outside trustees under bond indenture agreements and self-insurance trust arrangements. Amounts required to meet current liabilities have been classified as current assets in the accompanying consolidated balance sheets.

Equity in Joint Ventures

The Network is one of six owners of Health Partners of Philadelphia, Inc., a not-for-profit Health Maintenance Organization joint venture providing access to health care services on a prepaid basis ("Health Partners"). Health Partners is licensed to operate in Philadelphia and the surrounding counties, for the Commonwealth of Pennsylvania Medicaid Health Choices program. The Network accounts for its joint venture interest on the equity method whereby it records its share of earnings and net assets. Its share of earnings of Health Partners was \$7.5 million and \$7.8 million in 2012 and 2011, respectively, and is included in other operating revenues. Its share of net assets was \$17.2 million and \$20.6 million in 2012 and 2011, respectively and is included in other non-current assets.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost less accumulated depreciation. Interest and associated borrowing costs for financed projects such as major facility construction are capitalized during the time to complete and prepare the asset for its intended use. Donated equipment is recorded at fair market value at the date of receipt, which is then treated as cost. Depreciation is calculated utilizing the straight-line method based on the estimated useful lives of the underlying assets. Gains and losses from retirement or disposition of fixed assets are recognized in the consolidated statements of operations as operating gains or losses.

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Beneficial Interest in Perpetual Trusts

The Network is the beneficiary of various irrevocable charitable and split-interest trusts which are administered by trustees. The Network's proportionate interest in the investments of these trusts is recorded at fair value. The Network's proportionate interest is reported as permanently restricted funds within assets whose use is limited in the consolidated statements of financial position. Distributions of trust income are included in other non-operating revenues.

Self-Insurance Plans

Professional liability claims are insured under a combination of a risk retention group, self-insurance and excess commercial reinsurance programs. All of the Network's hospital operating entities also participate in the Medical Care Availability and Reduction of Error ("MCARE") Fund. Management accrues its best estimate of known and unknown medical malpractice and workers' compensation losses utilizing historical and actuarial data on a discounted basis. Professional liability claims are recorded on a discounted basis, using a rate of 3%.

Workers' compensation exposures are insured through a large deductible commercial insurance policy. Workers' compensation liabilities are recorded on a discounted basis, using a rate of 3%.

In August 2010, guidance was issued regarding presentation of insurance claims and related insurance recoveries, which clarifies that a health care entity should not net insurance recoveries against a related claim liability. This guidance was adopted by the Network on July 1, 2011 wherein the Network has recorded \$49.6 million and \$44.1 million for 2012 and 2011, respectively, of contingent insurance liabilities that are recoverable from insurance carriers.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods, as final settlements are determined.

Revenue from the Medicare and Medicaid programs, directly and from managed care providers serving Medicare and Medicaid enrollees, accounted for approximately 38.5% and 31.0%, respectively, of the Network's net patient service revenue for the fiscal year ended June 30, 2012 and 39.0% and 32.4%, respectively, for the fiscal year ended June 30, 2011. Most payments to the Network from the Medicare and Pennsylvania Medical Assistance programs for inpatient hospital services are made on a prospective basis.

Under these programs, payments are made at a predetermined specific rate for each discharge based on a patient's diagnosis. Additional payments are made to the Network for cases that have an extremely long length of stay or unusually high costs in comparison to national or statewide averages. Laws governing the Medicare and Medicaid programs are complex and subject to interpretation.

The Network has also entered into agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations, the largest being Independence Blue Cross at 17.0% and 16.8% of net patient revenues for the fiscal years ended June 30, 2012 and 2011, respectively. The basis for payment to the Network under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates and capitated rates.

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Donor-Restricted Gifts

Unconditional promises to receive cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations and changes in net assets as net assets released from restrictions.

Charitable Medical Care Provided

The Network provides services to all patients regardless of ability to pay. Although patients are ultimately responsible for hospital services rendered that are not covered by insurance, some uninsured patients qualify for charity care under established guidelines and are therefore not responsible for payment of such services. These guidelines require medical indigence status based on federal poverty guidelines. Charges for services rendered to patients who qualify for charity care are not reflected in the accompanying consolidated financial statements. Uninsured patients who do not qualify for free charity care are provided care at reduced rates.

The Network maintains records to identify and monitor the level of charity care provided. These records include the amount of charges forgone for services and supplies furnished. Such amounts have been excluded from net patient service revenue. Management estimates that the cost of unreimbursed charity care provided by the Network approximated \$19.0 million in 2012 and \$19.2 million in 2011. The cost of charity care is computed by taking the ratio of each operating division's cost to charges and multiplying it by the charges forgone for each charity patient.

Charity care amounts do not include the provision for bad debts, amounting to \$26.5 million and \$18.0 million for amounts due from patients at the Network's uninsured discounted fee scale amounts but not collected for the years ended June 30, 2012 and 2011, respectively. This provision is reflected separately in the accompanying consolidated statements of operations and changes in net assets.

Other Uncompensated Community Services

Services are provided to patients in the community who are insured under the Pennsylvania Medical Assistance Program. Payments from the Medical Assistance Program are substantially below the Network's cost of providing such services. The costs of providing services to eligible welfare recipients who participate in the Pennsylvania Medical Assistance and local Health Choices programs exceeded reimbursement by \$25.9 million in 2012 and \$18.1 million in 2011.

In addition to providing direct patient charity care and in furtherance of its exempt purpose to benefit the community, the Network provides various community services such as education, screenings and support groups for cancer patients and their families, health and wellness festivals, continuum of independent living and senior health programs, heart disease screenings, maternity care and childbirth programs, behavioral health crisis response and other related community health programs. The Network is also involved with school partnerships and helps organize educational programs for childhood and adolescent health issues, including underage drinking and smoking. Associated amounts expended for the above services approximated \$5.1 million in 2012 and \$4.0 million in 2011.

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Meaningful Use – IAS 20 Grant Model

The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. The Network recognizes its EHR incentive payments using a government grant recognition model. The Network determined the EHR incentive payments are similar to grants that are related to income and recognizes the incentive payments ratably over each meaningful use period. The Network recognizes the incentive payments when there is reasonable assurance that it will comply with the conditions attached to them and that the grants will be received. The recognition of income related to the EHR incentive payments is based on management's best estimates and the amounts are subject to change, with such changes impacting the operations in the period in which they occur.

Income Taxes

AEHN and its controlled affiliates are tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. The Network also owns or controls for-profit subsidiaries that are taxable corporations. These subsidiaries do not currently pay income taxes due to use of loss carry forwards.

Reclassifications

Certain amounts in the prior year consolidated balance sheets, statements of operations, changes in net assets and cash flows have been reclassified to conform to the current year presentation.

Subsequent Events

The Network has performed an evaluation of subsequent events through September 28, 2012, which is the date the financial statements were widely distributed.

New Accounting Pronouncements

Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities

In July 2011, new guidance was issued regarding presentation and disclosure of patient service revenue, provision for bad debts, and the allowance for doubtful accounts for certain health care entities, which requires health care entities to change the presentation in their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). This guidance will become effective for the Network on July 1, 2012.

Albert Einstein Healthcare Network
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

3. Fair Value of Investments

As of June 30, 2012, the fair values of investments, assets whose use is limited and beneficial interest in perpetual trusts, in thousands of dollars, consisted of the following:

	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	\$ 92,367	\$ -	\$ -	\$ 92,367
U.S. treasury obligations	-	41,360	-	41,360
U.S. agency obligations	-	22,139	-	22,139
Bond mutual funds	115,839	-	-	115,839
Equity mutual funds	59,882	-	-	59,882
Commingled equity funds	-	48,746	-	48,746
Commingled bond funds	-	18,580	-	18,580
Marketable equity securities	62,686	-	-	62,686
Corporate bonds	-	45,559	-	45,559
Guaranteed investment contracts	-	131,236	-	131,236
Other	-	4,500	-	4,500
	<u>330,774</u>	<u>312,120</u>	<u>-</u>	<u>642,893</u>
Beneficial interest in perpetual trusts	<u>-</u>	<u>37,034</u>	<u>-</u>	<u>37,034</u>
	<u><u>\$ 330,774</u></u>	<u><u>\$ 349,154</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 679,927</u></u>

As of June 30, 2012, the fair values of investments, assets whose use is limited and beneficial interest in perpetual trusts, in thousands of dollars, are presented in the consolidated balance sheets under the following classifications:

	Level 1	Level 2	Level 3	Total Fair Value
Investments, current	\$ 197	\$ 8,564	\$ -	\$ 8,761
Assets whose use is limited, current	15,559	6,477	-	22,035
Investments, non-current	202,137	72,382	-	274,519
Assets whose use is limited, non-current	<u>112,881</u>	<u>224,696</u>	<u>-</u>	<u>337,578</u>
	<u>330,774</u>	<u>312,120</u>	<u>-</u>	<u>642,893</u>
Beneficial interest in perpetual trusts	<u>-</u>	<u>37,034</u>	<u>-</u>	<u>37,034</u>
	<u><u>\$ 330,774</u></u>	<u><u>\$ 349,154</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 679,927</u></u>

Albert Einstein Healthcare Network
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

As of June 30, 2011, the fair values of investments, assets whose use is limited and beneficial interest in perpetual trusts, in thousands of dollars, consisted of the following:

	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents	\$ 79,377	\$ -	\$ -	\$ 79,377
U.S. treasury obligations	-	30,615	-	30,615
U.S. agency obligations	-	57,760	-	57,760
Bond mutual funds	120,131	-	-	120,131
Equity mutual funds	55,812	-	-	55,812
Commingled equity funds	-	34,854	-	34,854
Commingled bond funds	-	34,719	-	34,719
Marketable equity securities	67,260	-	-	67,260
Corporate bonds	-	55,566	-	55,566
Guaranteed investment contracts	-	241,581	-	241,581
Other	-	4,500	-	4,500
	<u>322,580</u>	<u>459,595</u>	<u>-</u>	<u>782,175</u>
Beneficial interest in perpetual trusts	<u>-</u>	<u>43,707</u>	<u>-</u>	<u>43,707</u>
	<u>\$ 322,580</u>	<u>\$ 503,302</u>	<u>\$ -</u>	<u>\$ 825,882</u>

Inputs used to value investments were re-evaluated during fiscal 2012. As a result, as of June 30, 2012, US Treasury Bonds and Commingled Equity Funds are both categorized as Level II.

As of June 30, 2011, the fair values of investments, assets whose use is limited and beneficial interest in perpetual trusts, in thousands of dollars, are presented in the consolidated balance sheets under the following classifications:

	Level 1	Level 2	Level 3	Total Fair Value
Investments, current	\$ 54	\$ 8,588	\$ -	\$ 8,642
Assets whose use is limited, current	30,174	6,496	-	36,670
Investments, non-current	179,817	118,412	-	298,229
Assets whose use is limited, non-current	112,535	326,099	-	438,634
	<u>322,580</u>	<u>459,595</u>	<u>-</u>	<u>782,175</u>
Beneficial interest in perpetual trusts	<u>-</u>	<u>43,707</u>	<u>-</u>	<u>43,707</u>
	<u>\$ 322,580</u>	<u>\$ 503,302</u>	<u>\$ -</u>	<u>\$ 825,882</u>

Albert Einstein Healthcare Network
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

4. Investment Income

Investment income and net realized gains (losses) for 2012 and 2011 included in the consolidated statements of operations and changes in net assets, in thousands of dollars, are comprised of the following:

	2012	2011
Investment income included in operating income:		
Interest and dividends	\$ 848	\$ 1,236
Net realized (losses) gains on sales of investments	(392)	647
Investment impairments	(14)	(31)
	<u>442</u>	<u>1,852</u>
Investment income included in non-operating revenues:		
Interest and dividends	7,752	8,040
Net realized gains on sales of investments	6,424	13,654
Investment impairments	(1,698)	(735)
	<u>12,478</u>	<u>20,959</u>
Total investment income on unrestricted net assets	<u>\$ 12,920</u>	<u>\$ 22,811</u>

	2012	2011
Investment income (temporarily restricted net assets):		
Interest and dividends	814	758
Net realized gains on sales of investments	746	2,633
Investment impairments	(563)	(309)
Total investment income on temporarily restricted net assets	<u>\$ 997</u>	<u>\$ 3,082</u>

Increases in net unrealized gains for 2012 and 2011 included in the consolidated statements of operations and changes in net assets, in thousands of dollars, are comprised of the following:

	2012	2011
Change in net unrealized gain on investments on unrestricted net assets	\$ (2,867)	\$ 17,480
Change in net unrealized gain on investments on temporarily restricted net assets	(255)	1,931
Change in net unrealized gain on investments on permanently restricted net assets	(2,896)	5,538
Total (decrease) increase in net unrealized gains	<u>\$ (6,018)</u>	<u>\$ 24,949</u>

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Included in interest, dividends and net realized gains are investment management fees of \$2.0 million and \$1.8 million for 2012 and 2011, respectively.

5. Assets Whose Use is Limited

Assets whose use is limited by donors, trust agreements or board designation, in thousands of dollars, were comprised of the following at June 30, 2012 and 2011:

	2012	2011
Trust indentures assets	\$ 188,306	\$ 298,885
Self-insurance assets internally designated	62,542	69,748
Board designated assets	40,974	40,426
Temporarily restricted net assets invested	59,291	57,745
Permanently restricted net assets invested	8,500	8,500
	<u>\$ 359,613</u>	<u>\$ 475,304</u>

6. Land, Buildings and Equipment

A summary of land, buildings and equipment, in thousands of dollars, is as follows:

	2012	2011
Land and land improvements	\$ 12,542	\$ 12,402
Buildings	438,785	422,846
Equipment	420,849	394,762
Construction in progress	271,962	128,144
	<u>1,144,138</u>	<u>958,154</u>
Less: Accumulated depreciation	<u>(600,788)</u>	<u>(558,802)</u>
	<u>\$ 543,350</u>	<u>\$ 399,352</u>
 Total depreciation expense	 <u>\$ 42,744</u>	 <u>\$ 36,249</u>

Included in equipment are capital leases of \$5,376,000 in 2012 and \$5,755,000 in 2011; included in accumulated depreciation is \$3,936,000 in 2012 and \$3,325,000 in 2011 pertaining to the accumulated amortization of capital leases.

Included in equipment are unamortized computer software costs of \$52,290,000 in 2012 and \$51,994,000 in 2011. Included in total depreciation expense is \$7,185,000 in 2012 and \$2,447,000 in 2011 pertaining to amortization of computer software.

Included in Construction in Progress, related to EMCM, the new hospital in Montgomery County, are capitalized project costs of \$221,516,000 and capitalized interest costs of \$31,192,000 at June 30, 2012 and capitalized project costs of \$99,894,000 and capitalized interest costs of \$13,448,000 at June 30, 2011.

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

7. Long-Term Obligations

Long-term obligations at June 30, 2012 and 2011, in thousands of dollars, consisted of the following:

	2012	2011
Series 2010 Bonds (a)	\$ 314,989	\$ 315,751
Series 2009A Bonds (b)	131,687	139,255
Capital leases (c)	213	2,329
Letter of credit loan (d)	15,267	7,136
Other (e)	2,285	1,703
	<u>464,441</u>	<u>466,174</u>
Less: Current portion	<u>9,999</u>	<u>10,208</u>
	<u>\$ 454,442</u>	<u>\$ 455,966</u>

- a. On June 23, 2010, EMCM issued \$309,435,000 in FHA Insured Mortgage Revenue Bonds, Series 2010 through the Montgomery County Industrial Development Authority ("MCIDA"). The bond proceeds, along with other funds are being used to:
- (i) Pay for the cost of acquiring land, constructing and equipping a new medical center in central Montgomery County (EMCM),
 - (ii) Pay a portion of the interest accruing on the Series 2010 Bonds during construction,
 - (iii) Fund a Debt Service Reserve Fund, and
 - (iv) Pay bond issuance costs.

Included in the Series 2010 Bonds obligation is an unamortized premium of \$5,554,000.

In conjunction with (a) above, EMCM has entered into a loan agreement with MCIDA whereby MCIDA has loaned the proceeds of the Series 2010 bonds to EMCM. EMCM has agreed to repay the loan by paying amounts sufficient to pay, when due, the principal and interest on the Series 2010 bonds.

Monthly payments to the Trustee providing funds equivalent for Series 2010 Bond maturities and interest will be made through February 2038. Interest on the bonds outstanding at June 30, 2012 is at stated rates ranging from 5.0% to 5.75%.

As evidence of its obligation under the loan agreement and in order to provide security for the repayment of the loan, EMCM issued its Series 2010 Mortgage Note which is secured by a Mortgage granting a first lien on EMCM's fee interest to the Trustee, as mortgagee, in its 84 acre campus, a \$24.4 million Debt Service Reserve Fund and certain other assets.

The Series 2010 Note and Mortgage are insured by the Department of Housing and Urban Development, acting by and through the Federal Housing Authority, under Section 242 of Title II of the National Housing Act.

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Although AEHN is the sole member of EMCM, neither AEHN nor any of its affiliates, other than EMCM, are obligated on, or are guarantors of the Series 2010 Bonds.

The Series 2010 Bonds maturing on or before August 1, 2020 are not subject to optional redemption prior to maturity. At the option of MCIDA, upon the direction of EMCM, at par plus accrued interest the Series 2010 Bonds maturing on August 1, 2030 are subject for optional redemption on August 1, 2015 and all other Series 2010 Bonds maturing on or after August 1, 2024 are subject to optional redemption on or after August 1, 2020.

- b. On June 18, 2009, the Network issued \$148,020,000 in Health System Revenue Bonds, Series 2009A through the Pennsylvania Economic Development Financing Authority ("PEDFA"). The proceeds were used for:
- (i) The refunding of a Commercial Bank Loan that was a bridge loan until such time that bonds could be issued,
 - (ii) Funding a Debt Service Reserve Fund, and
 - (iii) Payment of bond issuance costs.

Included in the Series 2009A Bonds obligation is an unamortized discount of \$1,348,000.

In conjunction with (b) above, the Network has entered into a loan agreement with PEDFA whereby PEDFA has loaned the proceeds of the Series 2009A bonds to the Network. The Network has agreed to repay the loan by paying amounts sufficient to pay, when due, the principal and interest on the Series 2009A bonds.

Semi-annual payments to a Trustee providing funds equivalent for Series 2009 Bond maturities and interest will be made through October 2023. Interest on the bonds outstanding at June 30, 2012 and 2011 is at stated rates ranging from 5.0% to 6.25%.

As evidence of its obligation under the loan agreement and in order to provide security for the repayment of the loan, the Network has issued its Series 2009A Master Note and granted PEDFA through its' Trustee a mortgage lien and security interest in certain real property owned by the Network.

For the purpose of securing payment of the Series 2009A Bonds, AEHN (the Network parent company), AEMC, Belmont, EPPI and ECHA formed the AEHN Obligated Group (the "Obligated Group"). No other Network affiliates other than members of the Obligated Group are obligated or are guarantors of the Series 2009A Bonds.

Payment of the Series 2009A Bonds is also secured by amounts on deposit in certain trustee-held accounts including \$14.9 million in the Debt Service Reserve Fund.

The Series 2009 Bonds maturing on or before October 15, 2019 are not subject to optional redemption prior to maturity. The Series 2009 Bonds maturing on or after October 15, 2020 are subject to optional redemption prior to maturity on or after October 15, 2019 at the option of the Network at par plus accrued interest.

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

- c. AEHN has leased certain computer hardware. Leases are payable in monthly installment amounts through 2013, ranging from \$38,000 in 2012 to \$38,000 in 2013. MHS has leased certain medical equipment. Leases are payable in monthly installment amounts through 2015, ranging from \$72,000 in 2012 to \$32,000 in 2015.
- d. Under the terms of the Trust Indenture for the Series 2010 Bonds, bond proceeds are invested during the period of construction at a rate that may be less than the interest rate payable on the bonds. This negative arbitrage results in a cash flow deficit that is funded with a Letter of Credit, the Negative Arbitrage Letter of Credit.

As of June 30, 2012 draws on the Negative Arbitrage Letter of Credit used to pay bond interest were \$15,267,000. Under the terms of the Reimbursement Agreement for the Negative Arbitrage Letter of Credit, draws on the Letter of Credit can be repaid at any time. Once construction of EMCM is complete, the outstanding balance may be converted to a five year term loan at the option of EMCM. All obligations of the Negative Arbitrage Letter of Credit are guaranteed by the AEHN Obligated Group.

- e. MHS has a loan for construction of a linear accelerator vault with an outstanding balance of \$312,000 payable in monthly installment amounts of \$32,000 through 2013 at 3.76% interest.

MHS also has an outstanding loan balance of \$1,030,000 on a revolving line of credit payable May 31, 2013 at variable interest rates, the weighted average of which was 1.30% at June 30, 2012.

Cash paid for interest on long-term debt in 2012 and 2011 was \$25,015,000 and \$18,249,000, respectively.

Principal payments and installments for debt service requirements of the Series 2010 Bonds and Series 2009A Bonds over the next five years and thereafter, in thousands of dollars, are as follows:

	Series 2009A	Series 2010	Combined
2013	\$ 8,075	\$ -	\$ 8,075
2014	8,485	-	8,485
2015	8,935	7,160	16,095
2016	9,415	5,995	15,410
2017	9,975	6,300	16,275
Thereafter	86,802	295,534	382,336
	<u>\$ 131,687</u>	<u>\$ 314,989</u>	<u>\$ 446,676</u>

The fair value of long-term debt is based on quoted market prices or estimated using discounted cash flow analyses based on the borrower's incremental borrowing rates for similar types of borrowing arrangements.

Albert Einstein Healthcare Network
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

The carrying amounts and fair values of long-term debt at June 30, 2012 and June 30, 2011, in thousands of dollars, are as follows:

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Balance sheet liabilities				
Debt obligations Series 2009A	\$ 131,687	\$ 148,331	\$ 139,255	\$ 149,262
Debt obligations Series 2010	314,989	361,389	315,751	337,997
	<u>\$ 446,676</u>	<u>\$ 509,720</u>	<u>\$ 455,006</u>	<u>\$ 487,259</u>

8. Pension Plans

The Network has a non-contributory defined benefit retirement plan ("The Plan"), which provides retirement benefits, generally at age 65, to all employees other than the employees of MHS. Benefits under the Plan are based on average final pay and years of service. Contributions to the Plan are designed to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006. The measurement date used for plan assets and liabilities is June 30 of each year.

MHS curtailed its individual non-contributory defined benefit plans effective May 31, 2003, when benefit accruals were frozen. Obligations of the defined benefit plans remain unsettled.

Items included in unrestricted net assets represent amounts that have not been recognized in net periodic pension expense. The components recognized in unrestricted net assets, as of June 30 include:

	2012	2011
Net actuarial loss	\$ 199,235	\$ 93,794
Prior service cost	164	164
	<u>\$ 199,399</u>	<u>\$ 93,958</u>

The changes in amounts in unrestricted net assets that have not been recognized in net periodic pension expense are as follows:

	2012	2011
Unrestricted net assets, prior year	\$ 93,958	\$ 119,635
Recognition of prior service (cost) credit	1	1
Recognition of net actuarial losses	(7,231)	(10,888)
Increase (decrease) in net actuarial loss	112,671	(14,790)
	<u>\$ 199,399</u>	<u>\$ 93,958</u>

Albert Einstein Healthcare Network
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

Year-end amounts in unrestricted net assets expected to be recognized as components of net periodic pension expense during the following fiscal year are as follows:

	2013	2012	2011
Amortization of net actuarial losses	\$ 17,800	\$ 9,435	\$ 10,316
Amortization of prior service cost (credit)	13	(1)	(1)

The components of pension expense for the Plan were as follows:

	2012	2011
Components of net periodic pension cost		
Service cost	\$ 14,070	\$ 13,685
Interest cost	23,812	19,284
Expected return on plan assets	(27,072)	(17,729)
Amortization of prior service cost	(1)	(1)
Recognized actuarial loss	7,231	10,888
Net periodic pension cost	<u>\$ 18,040</u>	<u>\$ 26,127</u>

Actuarial assumptions used to compute pension expense were as follows:

	2012	2011
Discount rate	5.75%	5.75%
Long-term rate of return	8.00%	8.00%
Compensation increase	4.00%	4.00%

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

The components of the pension plan financial position on the consolidated balance sheets, in thousands of dollars, were as follows:

	2012	2011
Change in benefit obligation		
Projected benefit obligation, beginning of year	\$ 416,864	\$ 322,483
Addition of MHS	-	68,526
Service cost	14,070	13,685
Interest cost	23,812	19,284
Actuarial loss	89,353	4,321
Benefit payments	(14,955)	(11,435)
Projected benefit obligation, end of year	529,144	416,864
Change in Plan assets		
Fair value of Plan assets, beginning of year	313,689	207,441
Addition of MHS	-	57,316
Actual return on Plan assets	4,338	36,960
Employer contributions	48,512	23,407
Benefit payments	(14,955)	(11,435)
Fair value of Plan assets, end of year	351,584	313,689
Funded status, end of year	\$ (177,560)	\$ (103,175)

Amounts recognized on the consolidated balance sheet consist of:

	2012	2011
Accrued pension liability	\$ 177,560	\$ 103,175
Unrestricted net assets (cumulative actuarial loss and prior service cost)	(199,399)	(93,958)
Net amount recognized	\$ (21,839)	\$ 9,217

Assumptions utilized to estimate year-end pension obligations are as follows:

	2012	2011
Discount rate	4.50%	5.75%
Compensation increase	4.00%	4.00%

The Accumulated Benefit Obligation was \$506,098,000 and \$399,842,000 as of June 30, 2012 and June 30, 2011, respectively.

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Projected Benefit Payments

Benefit payments for the next ten years, in thousands of dollars, are currently projected to be:

2013	17,343
2014	18,409
2015	19,682
2016	21,356
2017	22,770
2018-2022	145,648

Asset Allocation

The asset allocation of the Plan's investments can be summarized as follows:

	Target Allocation 2012	Percentage of Plan Assets June 30	
		2012	2011
Equity Securities	53%	54%	56%
Debt Securities	47%	46%	44%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The expected long-term rate of return for the U.S. plan assets of 8% is based on the expected return of each of the above categories, weighted based on the target allocations for each class. Equity securities are expected to return 10% on average over the long-term, while the average expected return for debt securities is 5% over the long-term.

The Network's investment policy utilizes a constant risk strategy, whereby employer contributions and the sale of securities are utilized to rebalance the asset allocation back to target levels when the actual asset allocation percentages vary from the target allocation percentages. Under normal market conditions, tolerance for variation from target percentages has been approximately 5%.

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

The following table presents the Plan's assets as of June 30, 2012, in thousands of dollars, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 2:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Pension investment program:				
Cash management funds	\$ -	\$ 5,082	\$ -	\$ 5,082
U.S. treasury obligations	-	8,866	-	8,866
U.S. agency obligations	-	2,106	-	2,106
Bond mutual funds	78,154	-	-	78,154
Equity mutual funds	87,644	-	-	87,644
Commingled equity funds	-	14,072	-	14,072
Marketable equity securities	81,382	-	-	81,382
Corporate bonds	-	72,958	-	72,958
Total pension investment program	<u>\$ 247,181</u>	<u>\$ 103,084</u>	<u>\$ -</u>	<u>\$ 350,264</u>

The following table presents the Plan's assets as of June 30, 2011, in thousands of dollars, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 2:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Pension investment program:				
Cash management funds	\$ -	\$ 7,025	\$ -	\$ 7,025
U.S. treasury obligations	-	19,420	-	19,420
U.S. agency obligations	-	3,725	-	3,725
Bond mutual funds	93,232	-	-	93,232
Equity mutual funds	76,832	-	-	76,832
Commingled equity funds	-	19,396	-	19,396
Marketable equity securities	73,138	-	-	73,138
Corporate bonds	-	19,834	-	19,834
Preferred stock	665	-	-	665
Total pension investment program	<u>\$ 243,867</u>	<u>\$ 69,400</u>	<u>\$ -</u>	<u>\$ 313,267</u>

Contributions

The Network projects that it will make a contribution of \$35.9 million to the Plan during the 2013 fiscal year.

In addition to the defined benefit plan, the Network maintains a defined contribution plan that covers substantially all employees. Under the defined contribution plan, employees may elect to contribute a percentage of their salary, which is matched in accordance with the provisions of the plan. Total plan expense for the years ended June 30, 2012 and 2011 was \$1,274,000 and \$804,000, respectively.

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

9. Professional Liability Claims

At June 30, 2012 and 2011 the Network has accrued professional liability claims of approximately \$196.9 million and \$187.7 million, respectively. In addition, the Network has recorded \$49.6 million and \$44.2 million for 2012 and 2011, respectively, of insurance liabilities that are recoverable from insurance carriers. These claims have been discounted at a 3% rate. At June 30, 2012 and 2011 the carrying amount of these accrued liability claims before discounting was \$254.1 million and \$239.1 million, respectively. The Network has recognized professional liability expense of approximately \$39.4 million and \$32.2 million, respectively for the years then ended.

Effective July 1, 2010, BRRG assumed the risk for the Network's professional and general liabilities through a loss portfolio transfer of the Network's liabilities and corresponding investments. Professional and general liabilities of \$47.9 million were transferred and corresponding investments of \$47.9 million were transferred to fund projected losses. These transfers were recorded as BRRG capitalization transactions.

Remaining investments of \$6.9 million, held in the Network's accounts in the prior insurance program, were transferred on July 1, 2010. \$1.2 million was transferred to AEHN to return its original investment. The remaining \$5.7 million was transferred to AEMC.

The Network obtains primary hospital and physician professional liability and general liability coverage through BRRG. BRRG provides the first ("primary") layer of professional liability on a claims made coverage basis with limits of \$500,000 per professional incident/\$2,500,000 annual aggregate per licensed acute care hospital, \$500,000 per professional incident/\$1,500,000 annual aggregate per long term care facility, \$1,000,000 per professional incident/\$3,000,000 annual aggregate for Belmont, \$1,000,000 per professional incident/\$3,000,000 annual aggregate for non healthcare professional liability \$500,000 per professional incident and \$1,500,000 annual aggregate per physician and \$1,000,000 per professional incident/\$3,000,000 annual aggregate per employed Dentist at June 30, 2012 and 2011. The limits for this primary coverage layer are statutorily prescribed in Pennsylvania. BRRG provides general liability coverage on an occurrence basis with limits of liability of \$1,000,000 per occurrence/\$3,000,000 annual aggregate. The premiums charged for the primary layer are determined by an independent actuary based on loss and loss adjustment expense experience and other factors at a 65% confidence level and include a charge for premium tax and operating expenses. The premiums charged by BRRG are subject to annual retrospective adjustments made to align assets available for payment of claims at fiscal year-end with estimated liabilities. Claims are recorded on a discounted basis using a rate of 3% for both June 30, 2012 and 2011.

The second layer of coverage is provided through Pennsylvania's Medical Care Availability and Reduction of Error Fund (the "MCARE Fund"). MCARE acts as a service agent to facilitate the payment of medical malpractice claims exceeding the primary layer of professional liability insurance carried by AEHN and most of the physicians they insure. This second layer, required by statute, consists of coverage with limits of \$500,000 per incident and \$1,500,000 annual aggregate per hospital, long term care facility and per employed physician at June 30, 2012 and June 30, 2011. The annual assessments for MCARE Fund coverage are based on a schedule of occurrence rates approved by the Insurance Commissioner of Pennsylvania for the Pennsylvania Professional Liability Joint Underwriting Association multiplied by an annual assessment percentage. This assessment is recognized as an expense in the period incurred.

AEHN and its employed/insured physicians paid surcharge assessments during fiscal years 2012 and 2011 totaling \$4.6 million and \$5.3 million, respectively. The actuarially computed liability to all

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

healthcare providers (hospital, physicians and others) participating in the MCARE Fund at December 31, 2010 (the latest date for which such information is available) was \$1.23 billion (\$1.01 billion at net present value discounted at 4%). No provision has been made for any MCARE Fund unfunded liabilities in the accompanying financial statements as AEHN's portion of the MCARE Fund unfunded liability cannot be reasonably estimated.

The Network's recorded expense for potential losses in excess of the primary and MCARE layers up to a \$6 million each professional incident/\$6 million annual aggregate retention excess of \$6 million each and every professional incident (acute care facilities) and \$4 million each professional incident/\$4 million annual aggregate retention excess of \$2 million each and every professional incident (psychiatric, rehabilitation and long term care services) is based on actuarially determined estimates at a 65% confidence level and 3% discount rate for fiscal year 2012 and fiscal year 2011. These estimates are based on historical information along with certain assumptions about future events. Changes in assumptions for such considerations as medical costs and actual experience could cause these estimates to change. Primary and MCARE erode these retentions.

During fiscal years 2011 and 2010, claims made coverage basis and umbrella liability coverage on an occurrence basis with limits of liability of \$40 million per professional incident/ \$40 million annual aggregate and \$40 million per occurrence/ \$40 million annual aggregate respectively in excess of underlying coverage and limits. BRRG has reinsured 100% of the excess professional liability and umbrella liability to reinsurance companies, Zurich American Insurance Company, Berkley Insurance Company and Ironshore, all rated by A.M. Best of A- or better.

During fiscal years 2012 and 2011, BRRG provided excess professional liability on a claims made basis and umbrella liability coverage on an occurrence basis with limits of liability of \$40.0 million per professional incident / \$40.0 million annual aggregate in excess of underlying coverage and limits. BRRG has reinsured 100% of the excess professional liability and umbrella liability to reinsurance companies.

(Zurich American Insurance Company, Berkley Insurance Company and Ironshore for 2011 and Zurich, Beazley, and Ironshore all rated A.M. Best of A- or better.)

Effective March 31, 2011, MHS maintained claims made excess professional liability insurance through One Beacon, an A rated insurer, in the amount of \$5 million each medical incident/\$5 million annual aggregate excess of \$5 million each medical incident/\$5 million annual aggregate excess of \$5 million each and every professional incident. Self Insured Retention (inclusive of primary and MCARE layers of coverage). As of March 31, 2011, MHS was added to the BRRG excess professional liability excess of \$10 million aggregate excess of underlying limits and coverage.

As of July 1, 2011, BRRG provided excess professional liability coverage excess of \$5 million per professional incident/\$5 million annual aggregate which was excess of \$5 million each and every professional incident Self Insured Retention (inclusive of primary and MCARE layers of coverage). BRRG provided umbrella liability coverage to MHS excess of underlying primary coverage and limits.

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

10. Commitments and Contingencies

Operating Leases

The Network and its related entities have various lease obligations for equipment, ambulatory facilities and office space. At June 30, 2012, the minimum future rental commitment, in thousands of dollars, is as follows:

2013	\$ 5,062
2014	4,584
2015	3,898
2016	3,640
2017	2,729
Thereafter	9,659
	<u>\$ 29,572</u>

Total rent expense was \$11,254,000 in 2012 and \$10,460,000 in 2011.

Letters of Credit

The Network had open letters of credit aggregating to \$82.6 million and \$76.0 million as of June 30, 2012 and 2011, respectively, letters of credit are reviewed and renewed on an annual basis. During fiscal 2012, the Obligated Group guaranteed \$75.1 million of letters of credit issued to guarantee certain obligations of EMCM during construction and during the first several years of operations of the new hospital. As of June 30, 2012, there was an outstanding loan balance of \$15.3 million pertaining to one of the letters of credit for EMCM construction.

The Obligated Group also guaranteed a letter of credit in the amount of \$15 million in lieu of a capital equity contribution to Broadline Risk Retention Group, Inc. to meet Vermont statutory requirements.

Lines of Credit

The Network had open lines of credit aggregating to \$51.8 million as of June 30, 2012. Pursuant to line of credit covenants, the Obligated Group may transfer property and make loans and advances to EMCM not to exceed \$120 million. As of June 30, 2012, there was an outstanding loan balance of \$1.0 million pertaining to MHS's draw on one of the lines of credit.

Litigation

The Network is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, all such matters are adequately covered by commercial insurance or by accruals, and if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a material adverse effect on the financial position or results of operations of the Network.

In November, 2009, two Federal and two State lawsuits were filed against the Network and certain individuals alleging violations of certain laws. All claims are based on allegations that the Network failed to pay employees for compensable work completed during meal breaks before and after scheduled work hours and time spent in training sessions and failure to maintain proper records and carry out certain fiduciary duties with respect to the calculation of benefits. Plaintiffs are purporting to bring these claims on behalf of a class of employees. The Network is and intends to defend the claims vigorously. The Federal and State cases were subsequently consolidated in Federal Court. On September 8, 2011, the Court dismissed all State and Federal claims against

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Einstein and gave the plaintiff 30 days to amend their complaints. The Plaintiff amended the complaints, defendants filed a motion to dismiss and the Court dismissed all federal claims with prejudice. On September 5, 2012, plaintiff filed a notice of appeal of the Court's decision. At this time the Network is unable to determine the cost of defending the lawsuits or the impact, if any, the lawsuits may have on its results of operations.

Long-Term Contracts

EMCM has a \$157 million guaranteed maximum price contract for construction of its new hospital.

Other

A large portion of the Network's net revenue is derived from services provided to beneficiaries of government sponsored health care programs, principally Medicare and Medicaid. The Network, like other health care providers who participate in these programs, is required to adhere to billing, coding and other requirements. As a condition of its receiving payment and continued participation in Medicare and Medicaid programs, the Network must comply with extensive federal and state regulations and must submit to reviews and audits by the federal and state agencies charged with administering these programs.

Violations of these billing, coding and other similar requirements can subject the Network to claims by the government for repayment of amounts it received for the services billed to the government programs, as well as for civil monetary penalties of up to three times the amount of payments received from the programs. Failure to comply with any of the laws or regulations under these programs could have a material, adverse effect on the Network's financial position and results of operations.

11. Donor Restricted Endowment Funds

The Network adopted FASB guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enhanced version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and additional disclosures about an organization's endowment funds. Pennsylvania is one of three states that have not adopted UPMIFA to date, however certain disclosures are made as required under the FASB guidance.

The Network's endowments consist of 350 individual funds established for purposes specified by donors (Specific Purpose Funds), 125 individual funds for which donors have established permanent balances (Endowment Funds), 18 outside trust funds where the Network is a benefactor (Perpetual Trusts) and 8 funds established by the Board of Trustees to underwrite rehabilitation research (Board Designated Funds). Net assets associated with each of these groups of funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions.

The Board of Trustees has interpreted the State Prudent Management of Institution Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Network classifies as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to a permanent endowment, and (c) accumulations to a permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund, except for beneficial interests in perpetual trusts, that is not classified in permanently restricted net assets is classified

Albert Einstein Healthcare Network
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

as temporarily restricted net assets until those amounts are appropriated for expenditure by the Network in a manner consistent with the standard of prudence prescribed by SPMIFA.

A summary of net asset composition by type of endowment restrictions fund and changes in net assets by those types of funds, in thousands of dollars, is as follows:

June 30, 2012:

		Donor Restricted			
			Permanently Restricted		
	Board Designated	Temporarily Restricted	Endowments	Perpetual Trusts	Total
Donor-restricted endowment funds	\$ -	\$ 66,749	\$ 8,500	\$ 37,034	\$ 112,283
Board-designated endowment funds	40,974	-	-	-	40,974
Total Funds	\$ 40,974	\$ 66,749	\$ 8,500	\$ 37,034	\$ 153,257

June 30, 2011:

		<u>Donor Restricted</u>			
			<u>Permanently Restricted</u>		
	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Endowments</u>	<u>Perpetual Trusts</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 56,047	\$ 8,500	\$ 43,707	\$ 108,254
Board-designated endowment funds	<u>40,426</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,426</u>
Total Funds	<u>\$ 40,426</u>	<u>\$ 56,047</u>	<u>\$ 8,500</u>	<u>\$ 43,707</u>	<u>\$ 148,680</u>

Albert Einstein Healthcare Network

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Changes in Net Assets functioning as endowments for the fiscal years ended June 30, 2012 and 2011, in thousands of dollars, are as follows:

	Board Designated	Donor Restricted			Total
		Temporarily Restricted	Permanently Restricted Endowments	Perpetual Trusts	
Endowment net assets, July 1, 2010	\$ 22,740	\$ 52,912	\$ 7,930	\$ 31,530	\$ 115,112
Investment return:					
Investment income	455	682	-	-	1,137
Net appreciation (realized and unrealized)	2,500	4,640	-	5,539	12,679
Total investment return	<u>2,955</u>	<u>5,322</u>	<u>-</u>	<u>5,539</u>	<u>13,816</u>
Contributions	489	7,590	572	-	8,651
Contributions - MHS acquisition	25,272	669		7,019	32,960
Appropriation of endowment assets for expenditure	(11,030)	(10,137)	-	-	(21,167)
Other changes:					
Change in beneficial interest in Perpetual trust	-	-	-	(382)	(382)
Investment impairment	<u>-</u>	<u>(309)</u>	<u>-</u>	<u>-</u>	<u>(309)</u>
Endowment net assets June 30, 2011	<u>40,426</u>	<u>56,047</u>	<u>8,502</u>	<u>43,706</u>	<u>148,681</u>
Investment return:					
Investment income	843	736	-	-	1,579
Net appreciation (realized and unrealized)	(43)	569	-	(2,896)	(2,370)
Total investment return	<u>800</u>	<u>1,305</u>	<u>-</u>	<u>(2,896)</u>	<u>(791)</u>
Contributions	-	15,148	-	-	15,148
Appropriation of endowment assets for expenditure	(252)	(5,188)	-	-	(5,440)
Other changes:					
Change in beneficial interest in Perpetual trust	-	-	-	(3,778)	(3,778)
Investment impairment	<u>-</u>	<u>(563)</u>	<u>-</u>	<u>-</u>	<u>(563)</u>
Endowment net assets June 30, 2012	<u>\$ 40,974</u>	<u>\$ 66,749</u>	<u>\$ 8,502</u>	<u>\$ 37,032</u>	<u>\$ 153,257</u>

Albert Einstein Healthcare Network
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

	2012	2011	2010
Permanently Restricted Net Assets			
(1) The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA	<u>\$ 45,534</u>	<u>\$ 52,207</u>	<u>\$ 39,460</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 45,534</u>	<u>\$ 52,207</u>	<u>\$ 39,460</u>
Temporarily Restricted Net Assets			
(2) The portion of perpetual endowment funds subject to a time restriction under SPMIFA:			
Cumulative realized and unrealized gains	\$ 35,497	\$ 35,486	\$ 30,528
Funds appropriated for specific purpose expenditure	<u>31,252</u>	<u>20,561</u>	<u>22,384</u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ 66,749</u>	<u>\$ 56,047</u>	<u>\$ 52,912</u>

12. Functional Expenses

The following is a summary of operating expenses by patient service setting:

	2012	2011
Hospital Services:		
Acute Care	\$ 684,415	\$ 570,789
Skilled Nursing	14,110	14,277
Nursing Home	-	151
Rehabilitation	72,904	68,449
Behavioral Health	<u>39,746</u>	<u>37,185</u>
Total Hospital Services	<u>811,175</u>	<u>690,851</u>
Physician Services:		
Tertiary Care	127,224	123,504
Primary Care	<u>29,911</u>	<u>28,873</u>
Total Physician Services	<u>157,135</u>	<u>152,377</u>
General and Administrative Support:		
Hospital & Physician Services	85,774	73,807
Other	<u>1,689</u>	<u>(842)</u>
Total General and Administrative Support	<u>87,463</u>	<u>72,965</u>
Total Operating Expenses	<u>\$ 1,055,773</u>	<u>\$ 916,193</u>

13. Asset Retirement Obligations

As of June 30, 2012, \$3,915,000 of conditional asset retirement obligations are included within other non-current liabilities in the balance sheet and relate to asbestos remediation. Interest accretion costs reduced operating income and increased the conditional asset retirement liability by \$140,000 for the year ended June 30, 2012 and by \$147,000 for the year ended June 30, 2011.

**Part II – Schedules of Expenditures of
Federal, State and City Awards**

Albert Einstein Healthcare Network

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identification Number	Federal Expenditures
Research & Development (R&D) Cluster			
Albert Einstein Medical Center (AEMC)			
U.S. Department of Health and Human Services			
National Institutes of Health			
Pass-Through The Trustees of Columbia University			
Warfarin Versus Aspirin in Reduced Ejection Fraction	93.853	1 U01NS43975-01	\$ 3,591
Moss Rehabilitation Hospital (Moss)			
U.S. Department of Health and Human Services			
National Institutes of Health			
Understanding the Conceptual-Motor Interface	93.853		317,962
A Longitudinal Multi-modal Neuroimaging Investigation of Functional Recovery			
After Diffuse Traumatic Brain Injury	93.853		166,478
Total CFDA 93.853			<u>488,031</u>
Dynamics of Spoken Word Comprehension in Aphasia	93.173		334,455
Psycholinguistic Analysis of Aphasic Syndromes	93.173		655,487
Total CFDA 93.173			<u>989,942</u>
Anger Self-Management in Post-Acute Traumatic Brain Injury:			
A Multi-Center Clinic	93.865		308,463
Research Methods for Cognitive Rehabilitation	93.865		606,731
Home-Based Mirror Therapy for Treating Hemiparesis in Stroke Patients	93.865		44,484
Pass-Through Temple University			
Traumatic Brain Injury Clinical Trials Network	93.865	P01 HD42738-01	742
Pass-through University of Pittsburgh			
Rehabilitation Medicine Scientist Training Program	93.865	0011424(118245-7)	133,338
Total CFDA 93.865			<u>1,093,758</u>
Pass-through University of Pennsylvania			
Linguistic and Non-linguistic Functions of Frontal Cortex	93.242	5-40238-A	102,711
Pass-through University of South Florida			
Gait Enhancing Mobile Shoe for Rehabilitation - ARRA	93.701	2105-1062-00-B	16,959
Total U.S. Department of Health and Human Services			<u>2,691,401</u>
U.S. Department of Education			
Treatment Components and Active Ingredients of a Scheduled Telephone			
intervention for Traumatic Brain Injury	84.133G		90,130
Zolpidem and Restoration of Consciousness: An Exploration of			
the Mechanism of Action	84.133G		178,913
Total CFDA 84.133G			<u>269,043</u>
Pass-through Mount Sinai School of Medicine			
Classification and Measurement of Medical Rehabilitation Interventions	84.133A	0257-1181-4609	111,942
The Moss Traumatic Brain Injury Model System	84.133A		380,149
Total CFDA 84.133A			<u>492,091</u>
Total U.S. Department of Education			<u>761,134</u>
U.S. Department of Defense			
Pass-through University of Washington			
CONTACT: Concussion Treatment After Combat Trauma	12.420	10313249	11,199
Total U.S. Department of Defense			<u>11,199</u>
Total R&D Cluster			<u>3,463,734</u>

Albert Einstein Healthcare Network

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identification Number	Federal Expenditures
Other Federal Awards			
Title I, Part A Cluster			
Albert Einstein Medical Center (AEMC)			
Pass-Through School District of Philadelphia			
School-Based Social Services and Administration	84.391	697/F10	592,185
Total Title I, Part A Cluster			<u>592,185</u>
SNAP Cluster			
U.S. Department of Agriculture			
Pass-Through Pennsylvania State University			
Nutrition and Education Program/Eat Right Now	10.561	708/F06	3,468,972
Total SNAP Cluster			<u>3,468,972</u>
Pass-Through Family Planning Council of Southeastern PA, Inc.			
Teen Drop-In Center	93.217	01-2504	27,006
Family Planning/Health Resource	93.217	03-2506	23,256
Family Planning/Delegate Agency	93.217	102501,102502	166,938
Family Planning/Health Resource-Germantown High School	93.217	112504	165
Family Planning/Health Resource-Martin Luther King High School	93.217	112503	165
Family Planning/Health Resource-Central High School	93.217	112506	165
Total CFDA 93.217			<u>217,695</u>
Family Planning/Health Resource-Martin Luther King High School	93.940	122503	2,300
Family Planning/Health Resource-Germantown High School	93.940	122504	2,300
Family Planning/Health Resource-Central High School	93.940	122506	2,300
Total CFDA 93.940			<u>6,900</u>
Family Planning/Delegate Agency	93.994	102501,102502	35,705
Family Planning/Delegate Agency	93.283	102501,102502	1,040
Family Planning/Delegate Agency	93.667	102501,102502	28,848
Total Family Planning Council			<u>290,188</u>
Pass-Through Philadelphia AIDS Activities Coordinating Office			
Ambulatory/Outpatient Medical Care Services	93.940	08-20362	27,003
Ambulatory/Outpatient Medical Care Services	93.914	09-20868	223,004
HIV Testing in Healthcare Settings	93.940	CPA2042	2,544
Total Philadelphia AIDS Activities Coordinating Office			<u>252,551</u>
Pass-Through Philadelphia Corporation for Aging			
Premier Years - Apprise Funds	93.779	09-0495-00-3112	88,394
Total Philadelphia Corporation for Aging			<u>88,394</u>
Pass-Through Commonwealth of Pennsylvania Department of Health			
Surge Capacity Hospital Preparedness Program	93.889	4100050794	21,259
Surge Capacity Hospital Preparedness Program	93.889	4100039618 R2	9,361
Surge Capacity Hospital Preparedness Program	93.889	4100050794	26,113
Total CFDA 93.889			<u>56,733</u>
Genetic Counseling Services	93.994	4100030442	842
MCH Services Block Grant	93.994	4100056953	8,705
Total CFDA 93.994			<u>9,547</u>
U.S. Department of Health and Human Services			
Health Resources and Services Administration			
Ryan White Title III Funding: Early Intervention Services	93.918B		451,478
Healthy Tomorrows Partnership for Children Program	93.110		53,117
Affordable Care Act: Primary Care Residency Expansion	93.510		137,786
Substance Abuse and Mental Health Service Administration			
Pass-Through University of Pittsburgh			
The Pennsylvania Medical Residency Training Program	93.243	0009647(118273-2)	15,859
Total U.S. Department of Health and Human Services			<u>658,240</u>
Belmont Center for Comprehensive Treatment (Belmont)			
U.S. Department of Health and Human Services			
Pass-Through Philadelphia			
Coordinating Office of Addiction Services Outpatient Program			
Outpatient Program	93.959	94-6164	75,727
Total Other Federal Awards			<u>1,431,380</u>
Total Expenditures of Federal Awards			<u>\$ 8,956,271</u>

Albert Einstein Healthcare Network **Schedule of Expenditures of State Awards** **Year Ended June 30, 2012**

Grantor/Pass-Through Grantor/Program or Cluster Title	Program Access Code	Grantor's Number	State Expenditures
Albert Einstein Medical Center (AEMC)			
Outpatient - Student Assistance Program	PAC CD - 0103-0628	09-20734-03	141,376
Community Services - Student Assistance Program	PAC CD - 0103-0228	09-20734-03	99,149
Long Term Structured Residence	PAC CD - 0100-1605	09-20734-03	3,565,123
Emergency Mental Health-Child/Adolescents	PAC CD - 0101-2125	09-20734-03	770,593
Emergency Mental Health-Crisis Response Center	PAC CD - 0100-2131	09-20734-03	806,377
Pass-Through Family Planning Council of Southeastern PA, Inc.			
Family Planning/Delegate Agency	N/A	122501,122502	3,925
Family Planning/Health Resource-Central High School	N/A	122506	8,035
Family Planning/Health Resource-Germantown High School	N/A	122504	8,035
Family Planning/Health Resource-Martin Luther King High School	N/A	122503	8,035
Pass-Through Philadelphia AIDS Activities Coordinating Office			
HIV Prevention Services	N/A	1020504-02	30,041
Total Expenditures of State Awards			<u>\$ 5,440,689</u>

Albert Einstein Healthcare Network **Schedule of Expenditures of City of Philadelphia Awards** **Year Ended June 30, 2012**

Grantor/Pass-Through Grantor/Program or Cluster Title	Program Access Code	Grantor's Number	City Expenditures
Albert Einstein Medical Center (AEMC)			
Philadelphia Department of Public Health			
Pass-Through Philadelphia Office of Behavioral Health and Intellectual Disability Services			
Emergency Mental Health-Crisis Response Center	PAC CD - 0100-2131	09-20734-03	\$ 89,597
Emergency Mental Health-Child/Adolescents	PAC CD - 0101-2125	09-20734-03	85,622
Pass-Through Family Planning Council of Southeastern PA, Inc.			
Family Planning/Health Resource-Martin Luther King High School	N/A	112503	18,000
Family Planning/Health Resource-Germantown High School	N/A	112504	18,000
Family Planning/Health Resource-Central High School	N/A	112506	18,000
Total Expenditures of City Awards			<u>\$ 229,219</u>

Albert Einstein Healthcare Network

Notes to Schedules of Expenditures of Federal, State and City Awards

June 30, 2012

1. General Information

The accompanying schedules of expenditures of federal, state and city awards (the "Schedules") present the activities in all the federal, state and city financial assistance programs of Albert Einstein Healthcare Network ("AEHN") as of June 30, 2012. All financial assistance received directly from federal, state or city agencies, as well as financial assistance passed through other governmental agencies or not-for-profit organizations is included on the schedules. The information in the Schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements, and the *City of Philadelphia Subrecipient Audit Guide*.

2. Basis of Accounting

The accompanying schedules of expenditures of federal, state and city awards are presented using the accrual basis of accounting. The amounts reported in these schedules as expenditures may differ from certain financial reports submitted to federal, state or city funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

3. Relationship to Basic Consolidated Financial Statements

Federal, state and city awards expenditures are reported on the statement of operations. In certain programs, the expenditures reported in the basic consolidated financial statements may differ from the expenditures reported in the schedules of federal, state and city awards due to program expenditures exceeding grant or contract budget limitations which are not included as federal, state and city awards. Because the Schedules present only a selected portion of the activities of AEHN, they are not intended to, and do not present either the financial position, changes in net assets or cash flows of AEHN.

4. Facilities and Administrative Costs

Expenditures consist of direct costs and indirect costs. AEHN has a predetermined facilities and administrative rate for federal awards, which is effective from July 1, 2011 to June 30, 2012. The rate is a percentage of modified total direct costs for the year ended June 30, 2012 as follows:

AEHN Facility	Rate
Albert Einstein Medical Center	49.5%
Moss Rehabilitation Hospital	52.5%
Belmont Behavioral Health	45.2%

Albert Einstein Healthcare Network
Notes to Schedules of Expenditures of Federal, State and City Awards
June 30, 2012

5. Subrecipients

Of the federal expenditures presented in the schedule, AEHN provided federal awards to subrecipients for the year ended June 30, 2012 as follows:

Program Title	CFDA Number	Amount
Research and Development Cluster		
U.S. Department of Health and Human Services		
National Institutes of Health		
Rehabilitation Medicine Scientist Training Program	93.865	\$ 39,621
Understanding the Conceptual-Motor Interface	93.853	41,772
Psycholinguistic Analysis of Aphasic Syndromes	93.173	169,481
Research Methods for Cognitive Rehabilitation	93.865	99,486
Dynamics of Spoken Word Comprehension in Aphasia	93.173	26,443
A Longitudinal Multi-modal Neuroimaging Investigation of Functional Recovery after Diffuse Traumatic Brain Injury	93.853	10,086
Anger Self-Management in Post-Acute Traumatic Brain Injury: A Multi-Center Clinic	93.865	204,538
U.S. Department of Education		
The Moss Traumatic Brain Injury Model System	84.133A	15,000
Treatment Components and Active Ingredients of a Scheduled Telephone Intervention for Traumatic Brain Injury	84.133G	18,347
Zolpidem and Restoration of Consciousness: An Exploration of the Mechanism of Action	84.133G	29,136
Total amount passed through to subrecipients		<u>\$ 653,909</u>

Part III – Reports on Internal Control and Compliance



**Report of Independent Auditors on Internal Control
over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees of the
Albert Einstein Healthcare Network

We have audited the consolidated financial statements of Albert Einstein Healthcare Network ("AEHN") as of and for the year ended June 30, 2012, and have issued our report thereon dated September 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered AEHN's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of AEHN's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of AEHN's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AEHN's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



We noted certain matters that we reported to management of AEHN in a separate letter dated December 4, 2012.

This report is intended solely for the information and use of AEHN's Board of Trustees, management, and federal, state and city awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

September 28, 2012



**Report of Independent Auditors on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133,
Commonwealth of Pennsylvania, Department of Public Welfare Audit
Requirements and the City of Philadelphia Subrecipient Audit Guide**

To the Board of Trustees of the
Albert Einstein Healthcare Network

Compliance

We have audited the compliance of Albert Einstein Healthcare Network ("AEHN") with the types of compliance requirements described in OMB *Circular A-133 Compliance Supplement*, the Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements and the *City of Philadelphia Subrecipient Audit Guide* that could have a direct and material effect on each of its major federal, state and City of Philadelphia programs for the year ended June 30, 2012. AEHN's major federal, state and City of Philadelphia programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal, state and City of Philadelphia programs is the responsibility of AEHN's management. Our responsibility is to express an opinion on AEHN's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements and the *City of Philadelphia Subrecipient Audit Guide*. Those standards, OMB Circular A-133, Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements and the *City of Philadelphia Subrecipient Audit Guide*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal, state or City of Philadelphia program occurred. An audit includes examining, on a test basis, evidence about AEHN's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of AEHN's compliance with those requirements.

In our opinion, AEHN complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal, state and City of Philadelphia programs for the year ended June 30, 2012.



Internal Control over Compliance

Management of AEHN is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal, state or City of Philadelphia programs. In planning and performing our audit, we considered AEHN's internal control over compliance with the requirements that could have a direct and material effect on a major federal, state and City of Philadelphia program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, Commonwealth of Pennsylvania, Department of Public Welfare Audit Requirements and *City of Philadelphia Subrecipient Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of AEHN's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal, state and City of Philadelphia program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal, state and City of Philadelphia program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of AEHN's Board of Trustees, management, and federal, state and city awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

March 29, 2013

**Part IV – City of Philadelphia Requirements
and Supplemental Schedule**



**Report of Independent Auditors on City of Philadelphia,
Department of Public Health Supplemental Schedules**

To the Board of Trustees of the
Albert Einstein Healthcare Network

We have audited the consolidated financial statements of Albert Einstein Healthcare Network ("AEHN") for the year ended June 30, 2012 and have issued our report thereon dated September 28, 2012. These financial statements are the responsibility of AEHN's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *City of Philadelphia Subrecipient Audit Guide*. Those standards and the *City of Philadelphia Subrecipient Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of AEHN taken as a whole. The accompanying Schedule of Functional Expenditures by Control Program and Revenues by Funding Source, Ambulatory/Outpatient Medical Care Services Schedules of Contractual Performance (Budget vs. Actual), Schedule of Program Activity Invoice Summary by Contract Number and Schedule of Adjustments on Summary of Program Activities by Program Activity Code are presented for purposes of additional analysis as required by the *City of Philadelphia Subrecipient Audit Guide* and are not a required part of the basic consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. The actual information in these schedules has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or the basic financial consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedules are fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

This report is intended solely for the information and use of AEHN's Board of Trustees, management and City of Philadelphia awarding agencies and is not intended to be and shall not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

March 29, 2013

Belmont Center for Comprehensive Treatment
Drug Treatment Program
Coordinating Office for Drug and Alcohol Abuse Programs
City of Philadelphia Contract #94-6164
Schedule of Functional Expenditures by Control Program
and Revenues by Funding Source
July 1, 2011 to June 30, 2012

	Outpatient Services #94-6164
Expenditures by program activity	
Total personnel services	\$ 231,128
Total operating expenses	<u>157,309</u>
Total expenditures by program activity	<u>388,437</u>
Revenue by funding sources	
Client fees	4,260
City of Philadelphia, Coordinating Office for Drug and Alcohol Abuse	75,727
Other third party fees	245,450
Other income (Medicare and Blue Cross)	<u>63,000</u>
Total revenue	<u>388,437</u>
Excess of expenditures over revenue sources	<u>\$ -</u>

**AIDS Activities Coordinating Office (AACO)
Ambulatory/Outpatient Medical Care Services,
City of Philadelphia Contract #09-20868 and #08-20362
Albert Einstein Medical Center
Schedules of Contractual Performance (Budget vs. Actual)
July 1, 2011 to June 30, 2012**

	Ambulatory/Outpatient Medical Care Services #08-20362
Expenditures by program activity	
Personnel services	\$ 18,499
Fringe benefits	<u>4,070</u>
Total personnel expenditures	22,569
Total supplies and other expense	<u>2,159</u>
Total direct expenditures	24,728
Indirect expenditures at contracted 10%	<u>2,275</u>
Total budgeted expenditures	<u><u>\$ 27,003</u></u>
Total funding	\$ 27,026
Refund Payable to AACO	<u>(23)</u>
Net AACO Funded expenditures	<u><u>\$ 27,003</u></u>

	Ambulatory/Outpatient Medical Care Services #09-20868
Expenditures by program activity	
Personnel services	\$ 167,226
Fringe benefits	<u>36,790</u>
Total personnel expenditures	204,016
Total supplies and other expense	<u>200</u>
Total direct expenditures	204,216
Indirect expenditures at contracted 10%	<u>18,788</u>
Total budgeted expenditures	<u><u>\$ 223,004</u></u>
Total funding	\$ 233,552
Refund Payable to AACO	<u>(10,548)</u>
Net AACO Funded expenditures	<u><u>\$ 223,004</u></u>

City of Philadelphia, Department of Public Health
Office of Behavioral Health and Mental Intellectual Disability Services
Schedule of Program Activity Invoice Summary by Contract Number
July 1, 2011 to June 30, 2012

Program Activity
Invoice Summary
XMH MR

Agency Emergency Mental Health Service of
Albert Einstein Medical Center
Approved
Fiscal Director : Leonard Warren
Executive Director: Barry Freedman

Period Covered

From July 1, 2011 to June 30, 2012

Program Activity	Eligible Expenditures					Net to Be Funded**
	PAC Code	Contract Number	Personnel	Operating	Total	
Crisis Response Center	*	09-20734-03	\$ 4,232,554	\$ 3,294,048	\$ 7,526,602	\$ 1,992,714
Long-term structured residence	*	09-20734-03	2,892,002	3,133,967	6,025,969	3,565,123
Total			<u>\$ 7,124,556</u>	<u>\$ 6,428,015</u>	<u>\$ 13,552,571</u>	<u>\$ 5,557,837</u>

* See Schedule of Adjustments of Program Activity by Program Activity Code, pages 49-52.

** Represents maximum contract amount.

**City of Philadelphia, Department of Public Health
Office of Behavioral Health and Intellectual Disability Services
Schedule of Adjustments on Summary of Program Activities by
Program Activity Code
Albert Einstein Medical Center
July 1, 2011 to June 30, 2012**

Program Activity	Total Per Quarterly Invoice	Total Per Final Audit Invoice	Adjustments/ Differences
<u>Contract Number 09-20734-03</u>			
<u>Total All PAC Codes</u>			
Personnel	\$ 7,956,976	\$ 7,124,556	\$ 832,420 A
Operating	493,566	3,700,837	(3,207,271) B
Administration	4,496,474	2,727,178	1,769,296 B
Total expenses	<u>12,947,016</u>	<u>13,552,571</u>	<u>(605,555)</u>
Hospital funded	3,958,457	4,564,012	(605,555)
Hospital cash collections	3,340,318	3,340,318	-
Other revenue	90,404	90,404	-
Total revenue	<u>7,389,179</u>	<u>7,994,734</u>	<u>(605,555)</u>
Net eligible to be funded	<u>\$ 5,557,837</u>	<u>\$ 5,557,837</u>	<u>\$ -</u>

- A. The employee benefits are estimated on the fourth quarter invoice while the amount per audit includes actual employee benefits per the filed cost report.
- B. The administrative costs are an estimate on the fourth quarter invoice while the amount per audit includes actual allocated costs per the filed cost report.

**City of Philadelphia, Department of Public Health
Office of Behavioral Health and Intellectual Disability Services
Schedule of Adjustments on Summary of Program Activities by
Program Activity Code, continued
Albert Einstein Medical Center
July 1, 2011 to June 30, 2012**

Program Activity	Total Per Quarterly Invoice	Total Per Final Audit Invoice	Adjustments/ Differences
<u>Contract Number 09-20734-03</u>			
<u>PAC Code 1030228</u>			
Personnel	\$ 85,860	\$ 100,783	\$ (14,923) A
Operating	2,039	2,038	1 B
Administration	13,185	15,423	(2,238) B
Total expenses	101,084	118,244	(17,160)
Hospital funded	1,935	19,095	(17,160)
Hospital cash collections	-	-	-
Total revenue	1,935	19,095	(17,160)
Net eligible to be funded	\$ 99,149	\$ 99,149	\$ -
<u>PAC Code 1030628</u>			
Personnel	\$ 143,610	\$ 168,571	(24,961) A
Operating	1,440	1,440	- B
Administration	21,757	25,502	(3,745) B
Total expenses	166,807	195,513	(28,706)
Hospital funded	25,431	54,137	(28,706)
Hospital cash collections	-	-	-
Total revenue	25,431	54,137	(28,706)
Net eligible to be funded	\$ 141,376	\$ 141,376	\$ -

- A. The employee benefits are estimated on the fourth quarter invoice while the amount per audit includes actual employee benefits per the filed cost report.
- B. The administrative costs are an estimate on the fourth quarter invoice while the amount per audit includes actual allocated costs per the filed cost report.

City of Philadelphia, Department of Public Health
Office of Behavioral Health and Intellectual Disability Services
Schedule of Adjustments on Summary of Program Activities by
Program Activity Code, continued
Albert Einstein Medical Center
July 1, 2011 to June 30, 2012

Program Activity	Total Per Quarterly Invoice	Total Per Final Audit Invoice	Adjustments/ Differences
<u>PAC Code 1001605</u>			
Personnel	\$ 2,964,928	\$ 2,892,002	\$ 72,926 A
Operating	189,621	2,229,341	(2,039,720) B
Administration	2,377,120	904,626	1,472,494 B
Total expenses	<u>5,531,669</u>	<u>6,025,969</u>	<u>(494,300)</u>
Hospital funded	1,876,142	2,370,442	(494,300)
Hospital cash collections	-	-	-
Other revenue	90,404	90,404	-
Total revenue	<u>1,966,546</u>	<u>2,460,846</u>	<u>(494,300)</u>
Net eligible to be funded	<u>\$ 3,565,123</u>	<u>\$ 3,565,123</u>	<u>\$ -</u>

- A. The employee benefits are estimated on the fourth quarter invoice while the amount per audit includes actual employee benefits per the filed cost report.
- B. The administrative costs are an estimate on the fourth quarter invoice while the amount per audit includes actual allocated costs per the filed cost report.

**City of Philadelphia, Department of Public Health
Office of Behavioral Health and Intellectual Disability Services
Schedule of Adjustments on Summary of Program Activities by
Program Activity Code, continued
Albert Einstein Medical Center
July 1, 2011 to June 30, 2012**

Program Activity	Total Per Quarterly Invoice	Total Per Final Audit Invoice	Adjustments/ Differences
<u>PAC Code 1002131</u>			
Personnel	\$ 2,808,992	\$ 2,294,609	\$ 514,383 A
Operating	232,102	967,626	(735,524) B
Administration	1,251,991	1,070,126	181,865 B
Total expenses	4,293,085	4,332,361	(39,276)
Hospital funded	1,447,443	1,486,719	(39,276)
Hospital cash collections	1,949,668	1,949,668	-
Total revenue	3,397,111	3,436,387	(39,276)
Net eligible to be funded	\$ 895,974	\$ 895,974	\$ -
<u>PAC Code 1012125</u>			
Personnel	\$ 1,953,586	\$ 1,668,591	\$ 284,995 A
Operating	68,364	500,392	(432,028) B
Administration	832,421	711,501	120,920 B
Total expenses	2,854,371	2,880,484	(26,113)
Hospital funded	607,506	633,619	(26,113)
Hospital cash collections	1,390,650	1,390,650	-
Total revenue	1,998,156	2,024,269	(26,113)
Net eligible to be funded	\$ 856,215	\$ 856,215	\$ -

- A. The employee benefits are estimated on the fourth quarter invoice while the amount per audit includes actual employee benefits per the filed cost report.
- B. The administrative costs are an estimate on the fourth quarter invoice while the amount per audit includes actual allocated costs per the filed cost report.

**City of Philadelphia, Department of Public Health
Office of Behavior Health and Intellectual Disability Services
Schedule of Program Activity Invoice Summary
July 1, 2011 to June 30, 2012**

**Program Activity
Invoice Summary
XMH MR**

**Agency Emergency Mental Health Service of
Albert Einstein Medical Center
Approved
Fiscal Director : Leonard Warren
Executive Director: Barry Freedman**

Period Covered

From July 1, 2011 to June 30, 2012

Program Activity	Eligible Expenditures					
	PAC Code	Contract Number	Personnel	Administrative and Operating	Total	Net to Be Funded*
Emergency Mental Health - Crisis Response Center	1002131	09-20734-03	\$ 2,294,609	\$ 2,037,752	\$ 4,332,361	\$ 895,974
Emergency Mental Health - Child/Adolescents	1012125	09-20734-03	1,668,591	1,211,893	2,880,484	856,215
Community Services - Student Assistance Program	1030228	09-20734-03	100,783	17,461	118,244	99,149
Outpatient -Student Assistance Program	1030628	09-20734-03	168,571	26,942	195,513	141,376
Long Term Structured Residence	1001605	09-20734-03	2,892,002	3,133,967	6,025,969	3,565,123
Total			<u>\$ 7,124,556</u>	<u>\$ 6,428,015</u>	<u>\$ 13,552,571</u>	<u>\$ 5,557,837</u>

* Represents maximum contract amount



**Report of Independent Auditors on Cost
Allocation Plan for Fiscal Year June 30, 2012**

To the Board of Trustees of the
Albert Einstein Healthcare Network

We have examined Albert Einstein Healthcare Network's ("AEHN") compliance with allocating indirect costs reflected in the City of Philadelphia, Department of Public Health, Office of Behavioral Health and Intellectual Disability Services program activity summary as required by the Commonwealth of Pennsylvania, Department of Public Welfare, Section 4300.94 of the Title 4300 Regulations during the year ended June 30, 2012. Management is responsible for AEHN's compliance with those requirements. Our responsibility is to express an opinion on AEHN's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about AEHN's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on AEHN's compliance with specified requirements.

In our opinion, AEHN complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2012.

This report is intended solely for the information and use of AEHN's Board of Trustees, management, and the City of Philadelphia, Department of Public Health and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

March 29, 2013



Report of Independent Auditors on Cost Allocation Plan for Upcoming Budget Year

To the Board of Trustees of the
Albert Einstein Healthcare Network

We have performed the procedures enumerated below, which were agreed to by Albert Einstein Healthcare Network ("AEHN"), solely to assist you in your filing requirements with the City of Philadelphia, Department of Public Health with respect to the administrative costs distribution included in the Line Item Budget for the year ended June 30, 2012 submitted by AEHN. Management is responsible for AEHN's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

- a. We obtained and reviewed a schedule contained within the 2012 Line Item Budget which reflected the allocation factors utilized in distributing administrative costs.
- b. We inspected the method of allocating administrative costs by comparing it to supporting work papers and by discussions with management responsible for allocation factors.
- c. We compared AEHN's method of allocating costs to the requirements specified in Section 4300.94 of the Title 4300 Regulations Related Methods for Allocating Indirect Costs in order to determine whether the cost allocation is in compliance with those regulations. The method of allocation used is through distribution of administrative costs to the service and cost categories receiving the benefit based on a rate identified in the cost allocation plan. We compared the allocation methods used between the current fiscal year and prior fiscal year to determine consistency between years. We found no inconsistency between the schedule and regulations and between the current fiscal year and prior fiscal year.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the amount of administrative costs distributed to the Center nor on any other amounts contained within the June 30, 2012 budget submitted to the City of Philadelphia, Department of Public Health. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report relates only to the items specified above and does not extend to the basic consolidated financial statements of AEHN taken as a whole.



This report is intended solely for the information and use of AEHN's Board of Trustees, management, and the City of Philadelphia, Department of Public Health and is not intended to be and should not be used by anyone, other than these specific parties.

PricewaterhouseCoopers LLP

March 29, 2013

Part V – Findings

Albert Einstein Healthcare Network

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Part I – Summary of Auditor’s Results

Financial Statements

- (i) Type of auditor’s report issued: Unqualified
- (ii) Internal control over financial reporting:
- | | | |
|--|-----------------|----------------------------|
| Material weakness(es) identified? | <u> </u> yes | <u> X </u> no |
| Significant deficiency(ies) identified not considered to be material weaknesses? | <u> </u> yes | <u> X </u> none reported |
- (iii) Noncompliance material to financial statements noted? yes X no

Federal Awards

- (iv) Internal control over major programs:
- | | | |
|---|-----------------|----------------------------|
| Material weakness(es) identified? | <u> </u> yes | <u> X </u> no |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | <u> </u> yes | <u> X </u> none reported |
- (v) Type of auditor’s report issued on compliance for major programs: Unqualified
- (vi) Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? X yes no
- (vii) Identification of major programs:

Name of Federal Program or Cluster	CFDA Number (s)
Research and Development Cluster	Various
Ryan White Title III Funding Early Intervention Services	93.918B
Coordinating Office for Drug and Alcohol Abuse Programs, Outpatient Program (“CODAAP”)	93.959
Nutrition and Education Program	10.561
AIDS Activity Coordination Office Ambulatory/ Outpatient Medical Care Services (“AACO”)	93.914, 93.940
(viii) Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
(ix) Auditee qualified as low-risk auditee?	<u> X </u> yes

Albert Einstein Healthcare Network
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

State Awards

- (iv) Internal control over major programs:
Material weakness(es) identified? ☐ yes ☒ no
Significant deficiency(ies) identified that are not considered
To be material weaknesses? ☐ yes ☒ none reported
- (v) Type of auditor's report issued on compliance for major programs: Unqualified
- (vi) Any audit findings disclosed that are required to be reported
in accordance with Government Auditing Standards? ☐ yes ☒ no
- (vii) Identification of major programs:
- | | State Award
Number |
|--|-------------------------------|
| Long Term Residential Services | 09-20734-03 |
| Emergency Mental Health-Crisis Response Center | 09-20734-03 |
| Emergency Mental Health-Child/Adolescents | 09-20734-03 |
- (viii) Dollar threshold used to distinguish between Type A and B programs: \$300,000
- (ix) Auditee qualified as low-risk auditee? ☒ yes ☐ no

Albert Einstein Healthcare Network
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

City Awards

- (iv) Internal control over major programs:
Material weakness(es) identified? ☐ yes ☒ no
Significant deficiency(ies) identified that are not
considered to be material weaknesses? ☐ yes ☒ none reported
- (v) Type of auditor's report issued on compliance for major
programs: Unqualified
- (vi) Any audit findings disclosed that are required to be reported
in accordance with Circular A-133, Section .510(a) and the
City of Philadelphia Subrecipient Audit Guide? ☐ yes ☒ no
- (vii) Identification of major programs:
- | | City
Award Number |
|---|------------------------------|
| Emergency Mental Health -Crisis Response Center | 09-20734-03 |
| Emergency Mental Health-Child/Adolescents | 09-20734-03 |
- (viii) Dollar threshold used to distinguish between Type A and
Type B programs: \$300,000
- (ix) Auditee qualified as low-risk auditee? ☒ yes ☐ no

Part II – Financial Statement Findings

None noted

Albert Einstein Healthcare Network

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Part III – Federal, State and City of Philadelphia Award Findings and Questioned Costs

Finding 2012-1 Period of Availability

Grantor: Health Resources and Services Administration

Title: Ryan White Title III Funding

CFDA #: 93.918B

Award #: H76HA00631-12-01

Award Year: 2011-2012

Criteria

OMB Circular A-133 Compliance Supplement 3-H-1 specifies, "Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency."

Condition

Of the 12 direct cost expenses selected for compliance testing for the Ryan White grant, 5 expenses were not incurred during the period of availability, totaling \$2,870. These expenses were incurred between December 2010 and June 2011.

Cause

Management does not enforce policies and procedures around proper cut-off of expenses.

Questioned Costs

\$2,870

Effect

Expenses could be charged to the grant outside of the period of availability.

Recommendation

We recommend that AEHN management institute procedures that ensure all expenses are charged to the appropriate period of availability by implementing controls over cut-off of grant expenditures. We recommend that management refund the awarding agency in the amount of the questioned costs.

Management's View and Corrective Action Plan

Following this finding is management's views and corrective action plan.

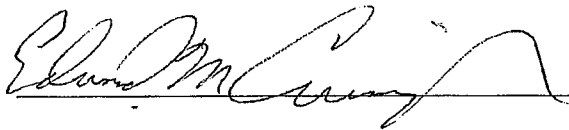
**Albert Einstein Healthcare Network
Management's Views and Corrective Action Plan
Year Ended June 30, 2012**

Finding 2012-1 Period of Availability

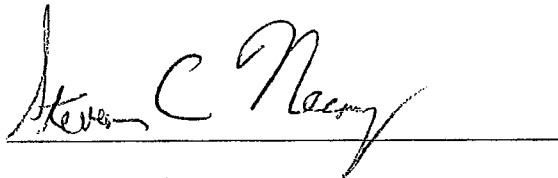
**Grantor: Health Resources and Services Administration
Title: Ryan White Title III Funding
CFDA #: 93.918B
Award #: H76HA00631-12-01
Award Year: July 1, 2011 – June 30, 2012**

Management's View and Corrective Action Plan

Management will improve its process to identify and accrue all expenses within the appropriate grant year. Management will work with the principal investigators and their staff to ensure that all expenses are recorded within the appropriate grant year. We will implement this process improvement immediately.



Edward M. Cunningham
Accounting Manager
Albert Einstein Healthcare Network



Steven C. Nearing
Director of Finance
Albert Einstein Healthcare Network